FILED
6-11-15
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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Liberty Utilities (CalPeco Electric), LLC (U 933-E) for Authority to among other things, Increase Its Authorized Revenues for Electric Service, Update Its Energy Cost Adjustment Clause Billing Factors, Establish Marginal Costs, Allocate Revenues, and Design Rates, as of January 1, 2016.	A.15-05-008 Filed May 1, 2015

PROTEST OF THE OFFICE OF RATEPAYER ADVOCATES

I. INTRODUCTION

In accordance with Rule 2.6, subdivision (a)[1] the Office of Ratepayer Advocates (ORA) protests in whole or in part Application (A.) 15-05-008 of Liberty Utilities, LLC (Liberty),[2] a General Rate Case (GRC), as captioned above. This Protest is timely filed and served within thirty-days after the Application was first noticed in the Commission's Daily Calendar, which was May 12, 2015.

ORA requests the opportunity to participate in an evidentiary hearing, at which ORA would present the facts and the law in the form of written direct testimonies, witnesses, and other evidence to support its position regarding the issues discussed

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[1] The term "Rule" means a provision of the California Public Utilities Commission (Commission) Rules of Practice and Procedure, unless otherwise stated.

[2] On January 1, 2011, Liberty acquired Sierra Pacific Power Co. (Sierra Pacific), its California service area, electric distribution facilities, and the Kings Beach Generation Facility (Kings Beach). It also adopted Sierra Pacific's schedule for GRC applications. *See Liberty,* D.10-10-017 (Commission approval of Liberty's purchase). This is Liberty's second GRC since acquiring Sierra Pacific.

below. Contingent on its discovery, ORA reserves the right to change or supplement these issues.

II. BACKGROUND

Liberty seeks "an overall increase in rates totaling $13.571 million annually or 17.34 percent over present rates, effective January 1, 2016."[3] Among other proposed increases, the Energy Cost Adjustment Clause (ECAC) rates would annually increase by $0.951 million.[4]

In ORA's preliminary analysis, for Test Year 2016 Liberty is forecasting a distribution base revenue requirement of $44.774 million, as compared with its current distribution base rate revenue of $28.317 million. This would amount to an increase of distribution base rate revenues by $16.457 million, i.e., a 58% increase over the $28.317 million stated above.[5]

Liberty also seeks an authorized Return on Equity (ROE) of 10.5% and an overall Rate of Return (ROR) of 7.92%, which are greater than the current Commission authorized Costs of Capital components.[6]

According to the Application, on June 1, 2015, Liberty was to file Phase II of this GRC with "proposals for Electric Marginal Costs, Revenue Allocation, and Rate Design."[7]

III. ISSUES TO BE CONSIDERED

A. Whether Liberty's Summaries of Earnings and of Results of Operations are supported and justified as reasonable.

In its Summary of Earnings, Liberty proposes revenues based on forecasts of revenues, expenses, net earnings, rate base, and rate of return. In turn, these forecasts are

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[3] Liberty Appl. at 1.

[4] *Id.* at 2.

[5] *See* Liberty Appl. at 12 and Ex. 1, ch. 12 (Alain R. BLunier, dir. test. re rev. reqmt./ Liberty).

[6] *Id.* at 7.

[7] *Id.* at 8.

used in its ROR computer model to develop the Summary of Results of Operations. ORA will review and evaluate whether Liberty's ROR computer models' assumptions, inputs, and calculations are reasonable and justified. ORA will develop its own comparative analyses and forecasts.

B. Whether Liberty's proposed forecasts of Sales, Customers, and Revenues are supported and justified as reasonable.

Operating revenues are calculated using forecasts of sales and customers, and billing factors including effective rates. Liberty's sales and customer forecasts are based on averages of sales and customers by month for 2012-2014. ORA will review and evaluate whether these sales, customer, and revenue forecasts are supported and justified as reasonable and may develop its own comparative forecasts.

C. Whether Liberty's proposed Operation and Maintenance (O&M) Expenses amounting to $17.221 million are supported and justified as reasonable.

Liberty's forecast of Operation and Maintenance (O&M) Expenses in the amount of $17.221 million appears to include the following expenses: Generation (Kings Beach diesels), Distribution, Customer Accounts, Customer Service and Information, and Administrative and General (A&G).[8] For Test Year 2016, these expenses are based on those calculated for Base Year 2014 plus incremental expenses and escalation factors. Liberty also included the expenses resulting from adding seven new employees which in total amount to $2.0 million. ORA will review and evaluate whether the O&M Expenses are supported and justified as reasonable and will develop its own comparative forecasts regarding O&M.

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[8] ORA will inquire why Customer Accounts and A&G are included in O&M, when they are usually accounted for separately from O&M.

D. Whether Liberty's proposed $495,000 costs for Energy Efficiency Programs, which is a $95,000 increase over last year's corresponding costs, are supported and justified as reasonable.

Liberty's proposal of $495,000 costs for Energy Efficiency Programs includes the following: $50,000 for an Energy Star Lighting Program; $40,000 for a Refrigerator Recycling Program; $60,000 for a Public Schools Incentive Program; and $50,000 for an Appliance Rebate Program. ORA will review and evaluate whether this proposal is supported and justified as reasonable and may develop its own comparative analyses and forecasts.

E. Whether Liberty's proposed $2.181 million Solar Incentive Program is supported and justified as reasonable.

Liberty requests $2.181 million over six years to establish a Solar Incentive Program. ORA will review and evaluate whether this proposal is supported and justified as reasonable. ORA may develop its own comparative analyses and forecasts.

F. Whether Liberty's proposed Plant Additions are supported and justified as reasonable.

ORA will review and evaluate whether the assumptions, inputs, and calculations used by Liberty to forecast Plant Additions and other similar major projects, are supported and justified as reasonable. ORA will develop its own comparative analyses and forecasts.

G. Whether Liberty's proposed 2016 Depreciation Expense of $5.0 million is supported and justified as reasonable.

Depreciation expense is related to the magnitude of the company's plant-in-service. As new plant items are placed in service, the level of depreciation increases. Recovery of this expense allows Liberty to recoup the original cost of capital investments, less any estimated net salvage over the useful life of the asset.

Liberty performed a depreciation study to arrive at its requested depreciation rates. ORA will review and evaluate whether Liberty's depreciation study supports and justifies as reasonable the proposed $5.0 million Depreciation Expense. This may include (but is not limited to) examining depreciation accounts, such as plant balances, reserves, service lives, survivor curves, net salvage rates, cost of removal, and net salvage. ORA may develop its own comparative analyses and forecasts.

H. Whether Liberty's proposed Federal and State Tax Expenses in the total amount of $7.753 million are supported and justified as reasonable.

Liberty projects $7.753 million in income and used statutory tax rates of 34% and 8.84% for respectively calculating Federal income and California franchise taxes. Also forecasts of property and payroll taxes were included. ORA will review and evaluate whether Liberty's assumptions, inputs, and methodologies used to forecast these Federal and State tax expenses are supported and justified as reasonable. ORA will develop its own comparative analyses and forecasts.

I. Whether Liberty's proposed Rate Base of $150.9 million is supported and justified as reasonable.

Rate base is the net investment in facilities, equipment, and other property that Liberty has constructed or purchased to provide utility service to its customers. It is the basis for calculating the return on earnings that Liberty may recover from its ratepayers.

Liberty's forecast of a $150.9 million Rate Base appears based on actual 2014 plant balances and forecasted capital expenditures for 2015 and 2016, using a 6.59% AFUDC rate for the same years. It includes projected capital expenditures related to the "Transmission Lines 625/650 Upgrade" project, which was authorized in D.15-03-020. Although Sierra Pacific supplies all of Liberty's electrical power, Liberty's Rate Base does not include any allocation of costs for Sierra Pacific's generation facilities located outside of California.

ORA will review and evaluate whether Liberty's proposed Rate Base is supported and justified as reasonable. ORA will examine (but is not limited to) plant-in-service, working capital, deferred taxes, depreciation reserve, materials and supplies, customer advances, capitalization of overheads, vacation accrual, and other Rate Base components. ORA will develop its own comparative analyses and forecasts.

J. Whether Liberty's proposed annual Vegetation Management Program Costs of $2.523 million are supported and justified as reasonable.

Liberty proposes Vegetation Management Expenses in the amount of $2.523 million annually for 2016, 2017, and 2018. ORA will review and evaluate this $2.523 million annual cost and may develop its own comparative analyses and proposals.

K. Whether Liberty's proposed Catastrophic Event Memorandum Account (CEMA) in the amount of $2.10 million is supported and justified as reasonable.

Liberty seeks to recover over a three-year period $2.10 million of operations and maintenance expenditures incurred during 2014 and the first two months of 2015 that were booked to CEMA. These costs are recoverable, if they are incremental to the CEMA-costs that had been requested and approved for rate recovery. ORA will also review and evaluate whether these CEMA-related costs are supported and justified as reasonable. ORA may develop its own comparative analyses and proposals.

L. Whether Liberty's proposed Costs of Capital components (7.92% ROR and 10.5% ROE) are supported and justified as reasonable.

Liberty proposes a Rate of Return (ROR) of 7.92%, which is higher than its current Commission-authorized ROR of 7.75%; and a Return on Equity (ROE) of 10.5%, which is higher than its current Commission-authorized ROE of 9.875%.[9]

ORA will review and examine Liberty's proposed Costs of Capital. This may include analyzing levels of return based on market returns regarding investments having similar risks, using the Capital Asset Pricing Model (CAPM) and/or Discounted Cash Flow (DCF). ORA will develop its own comparative analyses and proposals.

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[9] *See Liberty,* D.12-11-030, 2012 Cal. PUC LEXIS 556, at *3–4 (dated Nov. 29, 2012) (Comm. approves and adopts all-party settlement establishing a 7.75% ROR and a 9.875% ROE).

M. Whether Liberty's proposed Post Test Year Adjustment Mechanism (PTAM) is supported and justified as reasonable.

In its Phase II testimony, we anticipate Liberty will propose a PTAM derived from that which in D.12-02-014 was approved and adopted as part of a settlement .[10] In the Phase II proceeding, ORA will review and evaluate whether Liberty has supported and justified as reasonable its proposed PTAM and may develop its own comparative analyses and proposals.

N. Whether Liberty's proposed Energy Cost Adjustment Clause (ECAC) in the amount of $40.9 million is supported and justified as reasonable.

Liberty's $40.9 million of ECAC revenues is included in this GRC, when Liberty essentially buys all of its power from Sierra Pacific. ORA will review and examine whether Liberty's ECAC proposal is reasonable in light of the whole record and consistent with the law.

O. Schedule and Scope of ORA's Financial Audit

ORA will begin its on-site, audit review and analyses in late June 2015. The audit will include (but is not limited to): (1) examining Liberty's historical data; (2) analyzing Liberty records regarding specific revenue categories, various expenses, and plant items; and (3) adjusting for improperly incurred expenditures, such as certain one-time costs or shareholder costs. Liberty's financial accounts, records, and/or data are located in South Lake Tahoe, California, and various cities in Canada. Consequently, ORA will need more time for discovery to access these records and data.[11]

IV. CATEGORIZATION OF PROCEEDING

ORA concurs that this proceeding should be categorized as ratesetting.

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[10] *See id.* at *39–40 (append. A, settlement agreement).

[11] ORA will explore with Liberty whether the records located in Canada could be made available in California.

V. HEARINGS NEEDED

ORA requests an evidentiary hearing to provide ORA an opportunity to be heard and to develop a full and complete record of the facts and law at issue.

VI. ORA PROPOSED SCHEDULE

ORA disagrees with Liberty's proposed schedule. It would not provide ORA sufficient time and opportunity for discovery, analyses of the data collected, and preparing ORA's written direct testimony, especially since Liberty's financial accounts, records, and other data are located not only in South Lake Tahoe, California, but also in various Canadian cities.

Therefore, in lieu of Liberty's schedule, ORA proposes the following:

Event	Proposed Dates
Prehearing conference (Not Yet Calendared)	June 2015
ORA/Intervenor Testimony Served	October 28, 2015
ORA Cost Allocation and Rate Design Testimony Served	November 12, 2015
Rebuttal testimony Served	November 30, 2015
Evidentiary Hearings	December 15-17, 2015

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VII. CONCLUSION

ORA respectfully urges the Commission to hold a Prehearing Conference as soon as practical and recommends that the Scoping Memo includes the issues stated above and adopts ORA's proposed schedule.

Respectfully submitted,

/s/ CLEVELAND W LEE

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Dated: June 11, 2015